TO ENHANCE FAIRNESS IN COMPENSATING OWNERS OF PATENTS USED BY THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON ADMINISTRATIVE LAW AND GOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

H.R. 4558

TO ENHANCE FAIRNESS IN COMPENSATING OWNERS OF PATENTS USED BY THE UNITED STATES

OCTOBER 5, 1994

Serial No. 80

Printed for the use of the Committee on the Judiciary

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TO ENHANCE FAIRNESS IN COMPENSATING OWNERS OF PATENTS USED BY THE UNITED STATES

WEDNESDAY, OCTOBER 5, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ADMINISTRATIVE LAW
AND GOVERNMENTAL RELATIONS,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room B–352, Rayburn House Office Building, Hon. John Bryant (chairman of the subcommittee) presiding.

Present: Representatives John Bryant and George W. Gekas.

Also present: Paul Drolet, counsel; Nichole Jenkins, assistant counsel; Cynthia Blackston, chief clerk; and Ray Smietanka, minority counsel.

OPENING STATEMENT OF CHAIRMAN BRYANT

Mr. BRYANT. If the subcommittee will come to order.

We are gathered today to hear testimony on H.R. 4558, a bill to enhance fairness in compensating owners of patents used by the Government of the United States. The bill was introduced by my good friend and colleague from Texas, Representative Frost, and will provide for reasonable fees for expert witnesses and attorneys' fees in suits against the United States for compensation of patents used by the Government.

In order to recover such fees under the bill, the owner of a patent would have to be an independent inventor, a nonprofit organization or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of a patent invention which is offered the United States of America.

We appreciate the presence today of each of the witnesses and look forward to hearing their testimony in the course of the bill.

[The bill, H.R. 4558, follows:]

103D CONGRESS
2D SESSION

H. R. 4558

To enhance fairness in compensating owners of patents used by the United States.

IN THE HOUSE OF REPRESENTATIVES

JUNE 9, 1994

Mr. FROST introdueed the following bill; which was referred to the Committee on the Judieiary

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A BILL

To enhance fairness in compensating owners of patents ed by the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. JUST COMPENSATION.

(a) AMENDMENT.—Section 1498(a) of title 28, United States Code, is amended by adding at the end of the first paragraph the following: "Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had

no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to actions under section 1498(a) of title 28, United States Code, that are pending on, or brought on or after, January 1, 1993.

○

Mr. BRYANT. Does any other Member wish to make an opening statement?

Mr. GEKAS. No, we just would welcome our colleague from Texas, who normally is on the other side of the testimony, but I like the position we are in today.

Mr. FROST. I bet.

Mr. BRYANT. Well, with that, we will go to our witnesses.

I would like to welcome our colleagues from Texas, Mr. Frost, who has worked us over real good to make sure we had this hearing today, and we conceded to do so and look forward to working with him on this legislation.

What little I know about it makes it appear to me to be something very much worthy of the attention of the committee, and we look forward to hearing your testimony. Please proceed

STATEMENT OF HON. MARTIN FROST, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. FROST. Mr. Chairman, I will summarize my statement and submit the statement for the record. This is a pretty straightforward matter.

Standard Manufacturing is a firm located in the Oak Cliff portion of the city of Dallas. They have been in the defense contracting business for many, many years. They developed a number of patents. In this particular instance, they developed a patent which the Federal Government then stole from them.

And I use that word advisedly, but the Federal Government infringed their patent and gave it to a competitor. Standard Manufacturing then sued the Federal Government and established that they were correct, they prevailed in the lawsuit against the Federal Government. But under existing law, they are not entitled to attorneys' fees or for expert witness fees or the costs of pursuing their litigation.

So what I have done is I have introduced legislation that would provide not just in the case of this one company, but of any company similarly situated that sues the Federal Government in a patent infringement case and that prevails, that they ought to be entitled to the costs of litigation, and the costs of litigation in this matter were very substantial. This went on for a number of years, and I have with me, Dean Oswald, who is the vice president of Standard and he is going to testify at some length, and, as I said, I would like to submit my full statement for the record.

This is an instance in which a small business is at a distinct disadvantage in being able to establish its legal rights because of the enormous costs of litigation. And this particular small business prevailed only because of persistence; only because they were so convinced that they were right and that the Federal Government was wrong for having stolen their patent, that they were willing to incur very substantial legal costs in order to establish this right in court, which they have now done.

Unfortunately, under existing law, they or anyone similarly situated are not entitled to, in this type of case, a patent infringement case, is not entitled to legal costs. And I would like to, at this point, if I could, turn the testimony over to Dean Oswald, who will be able to answer detailed questions about what happened in this

case, and I will stay with him and be glad to address your questions about the legislation itself.

Mr. BRYANT. Very well.

[The prepared statement of Mr. Frost follows:]

STATEMENT OF THE HON. MARTIN FROST

IN SUPPORT OF H.R. 4558

BEFORE THE HOUSE JUDICIARY SUBCOMMITTEE ON

ADMINISTRATIVE LAW AND GOVERNMENTAL RELATIONS

OCTOBER 5, 1994

****

Mr. Chariman, I appreciate having the opportunity to testify this morning in support of H.R. 4558, a bill I introduced to help small patent holders recover litigation costs when the Federal Government is found to have infringed their patents.

Under current law, a patent holder cannot recover any of his costs in securing payment when a patent is used by the Government. The patent holder must initiate a lawsuit under 28 USC 1498 in order to obtain any compensation at all. Although section 1498 provides for "reasonable and entire compensation," what the patent holder actually receives is the amount which a court determines is reasonable compensation for the use of the patent, less whatever it has cost to obtain recovery.

I became aware of this situation because of the problems encountered by Standard Manufacturing of Dallas, Texas. Standard has a 55-year history of producing high-quality military equipment. They designed and patented the "trailer" used for loading bombs onto B-52 bombers in the 1950s. They also submitted a design to the Air Force for a "trailer" that could be used for both the B-52 and B-1B bombers.

When it appeared that the Federal Government stole this

design and shared it with a competitor, Standard went to the U.S. Court of Claims to have its interests protected. The Court of Claims agreed with Standard's claim of patent infringement, and will soon determine the appropriate damages.

Dean Oswald, the Vice-President of Standard Manufacturing, will be testifying a little later. He will tell you more about Standard, and about the legal action Standard had to pursue to protect its patent.

Mr. Chairman, it's wrong for the Federal Government to take and use patents from small businesses like Standard without just compensation. Standard is now entitled to some compensation, but it has incurred enormous legal fees to recover damages. And, unfortunately, these legal fees, incurred because of what the Federal Government has done to Standard, cannot be recovered. Thus, as the law now stands, Standard cannot receive true, just compensation for the taking of their property.

My bill is an effort to help small businesses recover some of the legal costs associated with defending their patents when the Federal Government takes and uses them. It provides that a court can award reasonable fees for expert witnesses, attorneys, and other costs of litigation.

Mr. Chairman, I believe that such a result is fair. It would ensure that small businesses like Standard Manufacturing really receive the "reasonable and entire compensation" they are entitled to when the Federal Government uses their patents.

Again, thank you for letting me appear here this morning.

Mr. BRYANT. Our next witness will be Mr. N. Dean Oswald, vice president of Standard Manufacturing Co. Welcome and proceed.

STATEMENT OF N. DEAN OSWALD, VICE PRESIDENT, STANDARD MANUFACTURING CO.

Mr. OSWALD. Thank you. Good morning. Thank you for your time today and particularly at this very late date in the legislative session this year.

We very much appreciate the opportunity to come here and speak on behalf of this bill, H.R. 4558. Congressman Frost has given a very, very good, succinct synopsis of the issue and the parts of this bill. I would like to submit that my testimony is in much greater length than this and we will submit it for the record and I would like to then summarize today.

Mr. BRYANT. We will make your full statement a part of the record and you can extemporize.

Mr. OSWALD. All right. I thought it would be important to give you a little bit of the background in this issue. Our company has been involved since 1947 in the design, the testing, and the manufacture of pieces of equipment that load bombs or missiles or rockets onto airplanes. We had become very expert in this rather narrow field of endeavor. We eventually built most all of the bomb-loading equipment that was used by the U.S. Air Force. We built equipment for the Navy and the Marine Corps. We also supplied equipment to foreign countries.

We have a great deal of experience in that field through many of our people who were out in the field actually loading bombs with the troops, showing them how to use the equipment. We had a great deal of experience in our engineering department.

In 1981, I attended a U.S. Air Force competition called Giant Sword that was put on by the Strategic Air Command. I knew at that time that the Air Force was in the process of buying a particular piece of equipment to load bombs or missiles on to the B–52. It was made by another company. It was very, very expensive. It was breaking down quite often. It required the company to have technicians at the airbases with the loaders to keep them working. It cost a lot of money.

I felt that we could do something better; that we could give them an opportunity to have some competition; an opportunity to save some money. We came home, did a lot of research, we came forward with a design. We came forward, then, to the Air Force with an unsolicited proposal in 1982. That proposal and the unsolicited proposal rules and regulations gave us protection as to the technology that was in that proposal. But to further protect ourselves, we also filed for a patent.

As things progressed, members of the Air Force worked with us. We were quite encouraged that the proposal that we came forward with was valuable; that it would provide them some savings, both in the procurement of the vehicle as well as long-term savings throughout the life of the vehicle. On the other hand, there were other members of the Air Force who did not agree with that. They felt that they needed to work with the other company that was building the deficient piece of equipment.

The long and the short of all of that was that the competitor ended up making the piece of equipment using our design, using our patent. We were granted our patent in 1985. We filed suit under the patent alleging that the Air Force had taken our patent. That was our only forum for redress, to sue the U.S. Government under the rules and regulations.

As an example of its value of the unsolicited proposal in that proposal we suggested that we would be able to make the vehicle that we were proposing for $350,000 per unit, and that we would do all of the engineering and build a prototype using our funds and our expenses to prove that it would work, which we did, and we designed and developed and built a prototype. The Air Force at the time was paying $850,000 for the competing product that would load only one airplane, where ours would load three.

Throughout the time of proposing all of that, there were many meetings with the Air Force. Eventually, like I say, the Air Force bought the competitor's vehicle and that amounted to 172 vehicles that they procured from them for procurement costs of around $106 million, and that was business that did not come to us. That was business that we did not get.

The Air Force, by its own calculations, saved or will have saved over the life of the vehicles $125 million by the use of our patent. Again, like I say, our only forum was to sue the Government and the Government then has the right to take our property but they must compensate us with just compensation, both reasonable and entire.

The Government got all the benefits. We have had to fight long and hard, for many years, to be compensated, both reasonably and entirely for what was taken. Like I said, we applied for the patent in 1982, it was issued in 1985, we filed suit in June 1985. The suit was bifurcated, broken into two parts. The liability portion, to see if they in fact had taken our patent was decided in 1991. And then we entered into the process of deciding damages, and that case is still ongoing. It is estimated that it will be finished in 1995.

There has been a lot of time and effort and energy spent by us at our company, but, also, we have had to retain counsel, retain expert witnesses and the like, and that will have cost us approximately $3.5 million by the time we are finished. It is money that had to come out of our hip pocket. It is not money that was provided by any agency of the Government. Those costs for proceeding against the Government are not allowed to be included in your overhead costs on any of the Government work, so it is money that was taken out of our profits and our retained earnings.

We believe that we will prevail. We have already prevailed in the liability section. They did in fact infringe our patent and our patent was in fact valid. It is our contention that it is not reasonable and entire compensation if the damage awarded to us does not include a provision for us to recover our legal costs. The fifth amendment of the Constitution provides that we receive just compensation for any property taken. A statute has been passed that provides for reasonable and entire compensation.

Because we have had to spend so much of our time and effort and energy on this case, not only could we not defend our rights on any other case of a similar nature, we would not have any in-

centive whatsoever to spend our intellectual resources to help the Government solve any technical problems in the future. That may be not too great a magnitude of event in the world's history, but it has been a very important thing to us and we feel like it has been a very important thing to the Government.

Further, in my belief, the effect of this problem is also a great disincentive for any other small business, or individual inventor to spend its intellectual resources in order to solve problems which might be of use by the U.S. Government.

This bill, H.R. 4558, will help correct this problem. I urge your favorable consideration of this bill and promptly reporting it out of the subcommittee.

Again, I thank you for your time.

Mr. BRYANT. Thank you.

[The prepared statement of Mr. Oswald follows:]

TESTIMONY OF

N. D. OSWALD
VICE PRESIDENT
STANDARD MANUFACTURING COMPANY

REGARDING

H.R. 4558

A Bill to enhance fairness in
compensating owners of patents
used by the United States

before the

SUBCOMMITTEE ON ADMINISTRATIVE LAW
AND GOVERNMENTAL RELATIONS

of the

COMMITTEE ON THE JUDICIARY

of the

HOUSE OF REPRESENTATIVES

OCTOBER 5, 1994

Thank you Mr. Chairman. My name is Norman Dean Oswald. I am the vice-president of Standard Manufacturing Company, and I appreciate the chance to come here today and testify on behalf of this bill to enhance fairness in compensating owners of pacents taken by the United States Government. It seeks to remedy a real injustice in our present system, one that my company and I are experiencing at first hand. At present, when a patent is taken for use by the Federal Government, the patent owner has only one remedy - he is forced to bring a suit against to recover just compensation. However, even if he wins his case, he is forced to bear all the costs of the lawsuit, which means that he actually recovers "just compensation" less whatever it has cost him to obtain the judgement. This bill would permit courts to remedy that situation, by allowing the patent owner to be reimbursed for reasonable litigation costs.

The patent system is as old as the Constitution in this country. From the very beginning, Americans have recognized that one way to encourage research, development and progress is to assure inventors that if they discover something new, and make their discovery public via the patent system, they will have the exclusive right to manufacture, sell, or use their invention for the first few years. We hear a lot of talk today about "intellectual property." That is something the Constitution recognized over two hundred years ago - that ideas can have economic value, and should be protected by the government from being misappropriated and exploited by someone else, just like

the rest of the property of a person or a business. The government protects inventors' rights to their ideas by issuing a patent. As you know, it does so only after it has studied the invention and compared it with what went before and made sure that it really is something new. Whether or not its particularly useful, whether or not anyone is going to be willing to pay for it is another question - but what the government does is guarantee that for seventeen years, only the patent owner gets to decide who will make, use, or sell the invention.

The only exception is if the government wants to use it. Now, ordinarily, if someone is using your patent without your permission, you can get a court to order them to stop, and you can get damages, and those damages can be increased threefold if the court finds that the defendant knew he was infringing your patent and went ahead and did it anyway. You can also get the court to order the infringer to pay your attorneys fees, the amount you had to spend to get him to stop doing what he wasn't allowed to do in the first place. All this changes, however, if he's selling the product to the government, or using the patent in some way for the government. Then you can't get the courts to make the infringer stop using the patent, and you can't get him to pay you any damages. Instead, you have to sue the government.

Now, I am not here to complain about that or ask that it be changed. The government's right to take property is also recognized in the Constitution, so long as it pays for it. The law has evidently decided that when someone uses your patent to make something to sell to the government, it should be treated as

though the government took a license in your patent and your remedy is to sue the government to get paid for the license. Now, this is not quite the same as getting your "damages" from the person who is making and selling your invention to the government, and there is no chance of increasing the award if the infringement was intentional. The real problem,however, is, that when you sue the government, although the law says that you are entitled to get the value of what was taken from you, that is not what you receive. The court is not allowed to take into consideration how much it has cost for you to recover the value of what was taken from you.

In other words, if the court says the patent right that was taken from you is worth $5 it awards you $5; it can't pay any attention to the fact that you have had to pay $2 in litigation expenses to get that $5 award. What you actually receive is $3 and you clearly haven't gotten back the equivalent of what was taken from you.

This legislation would not change the requirement that the court determine the value of what was taken, just as it does now. The change the legislation would make would be to permit the court to compensate the patent owner for the expenses he has incurred to get that award, so that when the court's judgment says you are entitled to $5, you actually get $5, and not $5 less however much you have had to pay your attorneys and experts.

Just the mere outline of the problem that is addressed by this bill fails to suggest its concrete importance to small

businesses and individual inventors. If I may, I would like to tell you about the experience of my own company and what this legislation means to it. Standard Manufacturing is a family-owned business, which began manufacturing for the defense industry during World War II and has continued to do so thereafter. A major part of our business since the 1950's has been manufacturing munitions loaders, specialized vehicles that are used to transport bombs, rockets, missiles, and the like to military aircraft precisely lift and position them and then attach them to the aircraft.

In the early 1980's, when President Reagan reintroduced the B-1 bomber program, several of us at my company realized that this meant there was going to be a need for a new bomb loader that could meet the particular loading bay configuration of the B-1. No existing loader was strong enough, or could lift a load high enough, to meet the requirements of the B-1. Since the government was also increasing the missile utilization of its B-52 fleet and purchasing loaders for those aircraft as well, we realized that there would be a particular advantage to a machine that could meet the needs of both models. Also in the USAF research and development phase was the Advanced Technology Bomber, now known as the B-2 Stealth Bomber and thus there was a need to be able to load it as well. Indeed, the loader that the government was then using for its B-52's was expensive, very complicated and prone to break down and was designed to load only the B-52. So what we set out to do in 1981 was to design a

loader that could meet the government's needs for all three aircraft.

This was no simple task, for the configurations of the loading bay of the two aircraft are entirely different - one provides for almost no horizontal clearance, and the other for no vertical. Harry Mankey, Ray Dean and I, who collectively had over 65 years of design and operation experience, worked many long hours coming up with a solution. When we did, we thought it was so good that we had a team of eight to ten work on it full time for six months, until the basic design was complete. All told, we put over 2 million dollars of our money into developing the idea into a workable prototype. We also briefed the government on our invention, proposed a manufacturing price that was less per unit than what they were paying for the defective B-52 loaders they were buying then, and had numerous meetings over a two-year period trying to convince them that we had designed the most suitable loader for their needs.

Evidently we were right, because during the last eleven years the government has purchased over one hundred fifty loaders that use our invention. It has even arranged to have some of the old loaders it had purchased for B-52's redesigned and totally remanufactured to take advantage of the invention for use with the B-2 aircraft. All told, it has spent over 100 million dollars for the loaders and related items. Unfortunately, all of the contracts have gone sole source to our competitor who apparently got hold of our design and copied it. They were

awarded $7,500,000.00 as an incentive for part of the savings enjoyed by the government for use of our invention. We have received nothing.

In September, 1982, shortly after we completed the basic design, we applied for a patent, and the patent was issued in June, 1985. As I mentioned before, this means that by law, we alone have the right to manufacture or sell this loader. However, since our competitor is selling it to the government, we have not been able to do anything to stop them or to collect damages from them. Rather, we have been forced to sue the government under a statute that provides that we are entitled to get "reasonable and entire compensation" for the taking of our patent rights. We filed a suit in 1985, and the case is still before the Court of Claims.

The case, as I now understand is usual in these actions, has been divided into two parts. In the first part, called the liability phase, we had to demonstrate that the Government was actually liable for using our patent. Sometimes this involves a question of whether the patent has actually been infringed, but in our case, the government admitted that if the patent was valid, it had been infringed. Instead, they claimed that our patent which was issued by another branch of the government wasn't valid. In addition to retaining attorneys to handle our case, we had to hire a legal expert and a technical expert to prove that the Patent Office had been right when it issued the patent. Now, although it is easy enough to state what the issue

was, you know that nothing is so straightforward when it comes to a lawsuit. The liability trial took about two weeks, I understand that there is an entire room in the Court of Claims building that is still being used to store the exhibits that were introduced at the trial, and the judge's opinion itself was one hundred pages long.

The judge ruled that our patent was valid, and that we are entitled to "reasonable and entire compensation" for the taking of our patent rights. Presently we are in what is called the accounting phase of the lawsuit, attempting to prove what amount would constitute just compensation. To try to establish this, we have had to retain more experts, on accounting and patent licensing. Thus far, we have spent over three and one half million dollars on attorneys' fees and witness expenses and we still don't know what we will ultimately be awarded. Our losses from this patent taking are over $50 million. Over the past ten years, while our competitor has been selling over one hundred fifty of the loaders that the court has recognized we invented, our own business has shrunk to less than one-quarter of its former size. They have reaped the profits, we have borne the expense of the litigation, but we don't know what we will eventually recover.

What we do know, however, is that under current law as it has been interpreted by the courts, when the judge makes her decision she can only take into account what we should have been paid, and not how much it has cost us out of pocket to get that

award. For example, I understand that the Justice Department's position is that $5 million would be reasonable and entire compensation for our patent rights. That means that the government's own position is that it took something from us worth $5 million, and yet if that is the court's award, what we will actually receive is only $1.5 million. The constitution says we are entitled to just compensation, the statute says we are entitled to reasonable and entire compensation, and yet what we will get is reasonable compensation less what we have had to spend to get it.

Congress has already addressed this problem in other situations where a citizen is forced to bring suit against the government for the taking of his property. I understand from our lawyers that usually when the government has taken property without paying for it, the owner can bring his suit under the big or little Tucker Acts, and that a statute already provides that the court can award reasonable litigation costs to the owner if he is successful in such a suit, so that he will actually receive, on net, the amount that the court determines is "just compensation." Patent owners are not asking for special treatment therefore; rather the relief we are asking for is already available to others in our situation. I also understand that the courts have noted the problem but have said that there is nothing that they can do about it unless Congress gives them specific authority to award litigation costs.

That is what this bill would do. It would authorize

expressly the recovery of reasonable costs by a patent owner who is forced by statute to litigate against the Government in order to obtain just compensation. This is not a carte blanche to sue the government at its expense. No matter how much the patent owner has spent to press his claim, he gets nothing unless the court determines that the government has taken his property and is liable to him for using his property, in this case a patent. Moreover, the court would scrutinize the costs in each case to make sure that they are reasonable. All that this bill would do is restore fairness to the compensation of patent owners, who, under current law, necessarily lose money even if they succeed in their suit.

As I mentioned at the outset, throughout its history our country has recognized the importance of furthering discovery and invention by securing to inventors the fruits of their efforts. This bill would fill an important gap that has developed between the protection that the law purports to offer, and what it actually provides.

Mr. BRYANT. Our next witness is Brian Wolfman, staff attorney for Public Citizen Litigation Group.

STATEMENT OF BRIAN WOLFMAN, STAFF ATTORNEY, PUBLIC CITIZEN LITIGATION GROUP

Mr. WOLFMAN. Thank you. I wish to thank the committee for inviting me to testify this morning, and I will try to summarize the statement that I provided and would like it to be submitted in its entirety.

I am a staff attorney with Public Citizen Litigation Group, which is a division of Public Citizen here in Washington. The statute before the committee concerns is a fee-shifting provision, and the general purposes of these statutes is threefold: To encourage the vindication of Federal rights, as Mr. Oswald referred to, such as those protected in civil rights laws, patent laws, environmental laws; enabling citizens to hire lawyers and to provide additional incentives to obey Federal law; and, of course, to fully compensate those whose rights have been violated, as it appears Mr. Oswald's company's rights have been violated.

Now, as a general matter, when a citizen prevails in litigation against the Federal Government, the Equal Access to Justice Act is the applicable statute. There are other specific statutes, such as the one that is being requested here today, but generally the EAJA, as it is known, is the applicable statute.

Now, EAJA is unlike virtually all the other fee-shifting statutes that are on the books in two crucial respects, and several other less important ones. The first important one, though, is that prevailing plaintiffs usually cannot recover their attorneys' fees at market rates; rather EAJA limits fees to $75 per hour plus inflation from the time it was enacted in the early 1980's.

Second, it is not enough for the plaintiff to simply prevail in the litigation, as it is under virtually every other fee provision, such as the one being proposed here today, H.R. 4558. The Government can avoid an award of fees if it can show that despite having lost the case, its position on the merits of that case was substantially justified, which the courts have interpreted to mean reasonable in law and fact.

So H.R. 4558 beneficiaries will gain two important things, which I have just referred to, that EAJA cannot give them, market rate attorneys' fees and automatic fee shifting if they have prevailed in their suit with the Federal Government.

As a general matter, it is our position that we do not think it is healthy or rational to deal with the question of attorneys' fees on an ad hoc piecemeal basis. The real question to us, which is raised obliquely by this bill, H.R. 4558, is EAJA reform, which in our view is long overdue. Reforming EAJA along the lines we propose will obviate the need to burden Congress with subject-specific fee legislation.

I want to make one thing clear. We do not take any particular position on this bill, and compensating for the wrongs that Mr. Oswald's company has suffered is perfectly consistent with the general position we are taking.

And I want to mention some of the problems that the general fee-shifting provision—EAJA—has, and recognize——

Mr. GEKAS. General what?

Mr. WOLFMAN. Fee-shifting provision. Sorry.

Mr. GEKAS. That is all right.

Mr. WOLFMAN. That EAJA has, and recognize there are some other less important ones that should be cleaned up as well.

I want to mention first, though, that many of the things that I will be talking about today, very briefly, have been endorsed by the Administrative Conference of the United States and its particular proposals which were made in 1992 are attached to my testimony as well.

One of the problems, as I indicated, is the fee cap is at $75 an hour, plus inflation. That is just totally out of line with current fee rates today, and the inflation just has not kept up with the legal marketplace. And, you know, I am sure that Mr. Oswald will agree he did not accrue $3.5 million in attorneys' fees and expenses at $75 an hour. The fees were certainly at rates much greater than that, I am quite sure.

In Washington, for instance, the Justice Department uses a fee scale to compensate lawyers who are not subject to EAJA and it runs anywhere from about $135 an hour to $305 an hour. Myself, although it is hard for me to imagine this, but apparently with my level of experience I am entitled to $265 an hour. I don't charge that in my office since we do not work on that basis, but it gives you a sense of the kind of fees that have to be incurred to oppose unlawful governmental action.

A second problem with the EAJA, and this again is well illustrated by Mr. Oswald's case, is that generally speaking the courts award fees at what is known as historical rates. So if you have a case that has been pending for quite some time, as Mr. Oswald's case, they award fees based on when you did the work. But of course all the while you do not have the money. And one important reform, of course, would be to award rates at the time they are awarded and not at the time that you did the work.

Another thing, as I have alluded to, is elimination of the substantial justification defense. It could be, for instance, in Mr. Oswald's case, that the Government could come back and convince a court, even though it lost and lost badly, that it had a reasonable position at some point in the litigation and would be able to avoid fees. But that does not compensate the individual or the company for the time and expense that they have gone through.

As it turns out, what has occurred with this substantial justification defense under EAJA is it saved the Government little, if any, money at all, as the Administrative Conference found and as a study that I refer to in my longer remarks found. Because the Government tends to lose about 80 percent of these fee applications anyway, there is an enormous amount of litigation expense just litigating the issue of substantial justification.

That brings me to the question of costs under EAJA. To be sure, one of the reasons that—when this was enacted, in 1980 and began in October 1981, to be sure one of the reasons that it was structured not to give market rates and to allow the Government a defense on the basis of reasonableness was because of a cost concern. At that time, in 1980, when the committee reports accompanying the statute came out, there was a CBO estimate that EAJA would

cost, in 1980 dollars, $100 million a year and a little more thereafter. Well, in fact, EAJA has cost, at most, $5 million a year.

In the year ending 1992, it cost the Government about $1.2 million. In other words, almost 100 times less than the CBO estimate. So we are not talking about very big money here. What we are talking about is making the system rational.

Every suggestion we have, and the administrative conference has, will greatly reduce litigation costs because they will reduce all the infighting about the question whether you are entitled to fees. In some instances, although not all, it might increase to some degree the outlay of fees for the Government, but it will greatly get rid of all this satellite litigation. There has been an enormous amount of litigation under this statute precisely because it is so hard for litigants to recover market rate fees and they need to try to get something.

There are a couple of other items which I have laid out in my full testimony, and I will just mention two of them right now.

The first is that, as again Mr. Oswald said, his forum was the Claims Court. Well, in 1985, EAJA was amended to make the Claims Court a "court" within the meaning of EAJA so that people could recover if they had to sue in the Claims Court. We believe that EAJA was always intended to cover the Claims Court. EAJA simply says "any court" in which you have won against the Government has the power to award fees.

But there has been a lot of satellite litigation, again, the Government has lost almost all of it, claiming that so-called article I courts, like the Veterans Court, the Claims Court, bankruptcy courts, are, for one reason or another, not subject to EAJA. That ought to be amended. That is a very, very negligible cost item, because, as I say, the Government has generally lost that issue, but it has been a locus of a lot of satellite wasteful litigation.

And, finally, EAJA has a separate portion of the statute which covers agency adjudications. As I am sure the committee members are well aware, a lot of times you have to have a formal adjudication before a Federal agency, such as the Labor Department, the Federal Election Commission, whatever it might be. The statute says that in order to gain fees, you have to technically be involved in an adjudication, subject to the Administrative Procedure Act.

Well, as it turns out, some statutes, the statute that sets up deportation hearings, for example, follow the exact same provisions as the Administrative Procedure Act but are technically not subject to that act. They are set up in that case by the Immigration and Naturalization Act and, therefore, the courts have held they cannot award EAJA. And, of course, that makes very little sense. They are identical type hearings.

For instance, someone now who is subject to an unlawful deportation order cannot get fees. But someone subject to an unlawful order of the FCC can get fees. That was clearly, I don't believe, intended by this body.

In any event, that is what we have to say this morning. We have submitted all our comments and we believe that what is rational is to take a look at the statute as a whole and make it work for all this country's citizens. And of course if the committee has any questions, I would be happy to answer them.

Mr. BRYANT. Very well. Thank you very much for your testimony and for each of your testimonies and the complete written presentation of it that accompanies your oral testimony.

[The prepared statement of Mr. Wolfman follows:]

October 5, 1994

TESTIMONY OF BRIAN WOLFMAN OF PUBLIC CITIZEN LITIGATION GROUP ON H.R. 4558 BEFORE THE SUBCOMMITTEE ON ADMINISTRATIVE LAW AND GOVERNMENTAL RELATIONS OF THE HOUSE JUDICIARY COMMITTEE

Good morning. My name is Brian Wolfman. I wish to thank the committee for inviting me to testify this morning. I am a staff attorney with Public Citizen Litigation Group, a division of Public Citizen here in Washington, D.C. In my work at Public Citizen, and prior to that, as a staff attorney for a rural legal services program in Arkansas, I have developed a good bit of knowledge of the federal fee-shifting statutes. I have litigated numerous issues under these statutes at all levels of the federal judiciary, including two recent Supreme Court cases.[1] Under fee-shifting legislation, parties prevailing in litigation are awarded attorney's fees and sometimes other litigation expenses. The general purpose of these statutes is three-fold: to encourage the vindication of federal rights (such as those protected in our civil rights, environmental, and open government laws), by enabling citizens to hire lawyers; to provide additional incentives to obey federal law; and to fully compensate those whose rights have been violated.

As a general matter, when a citizen prevails in litigation against the federal government, the Equal Access to Justice Act ("EAJA") is the applicable fee-shifting statute.[2] Other specific

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[1] Melkonyan v. Sullivan, 498 U.S. 1023 (1991); Shalala v. Schaefer, 113 S. Ct. 2625 (1993).

[2] See 28 U.S.C. 2412.

fee statutes might apply, such as the Freedom of Information Act,[3] but when no other statute does not apply, EAJA is the only possible recourse. Two prominent examples of EAJA applicability are suits against federal agencies to obey statutory and constitutional mandates, and challenging arbitrary and capricious agency actions, under the Administrative Procedure Act,[4] and Social Security cases.[5] In addition, a separate provision of EAJA applies to certain administrative adjudications before federal agencies.[6]

EAJA is unlike virtually all of the other fee-shifting statutes in two crucial respects (and several other less important ones as well). First, prevailing plaintiffs usually cannot recover their attorney's fees at market rates.[7] Rather, EAJA limits fees to $75 per hour, adjusted by increases in the cost of living since EAJA's enactment.[8] Second, it is not enough for the plaintiff to prevail in the litigation, as it is under virtually every other fee provision;[9] the government can avoid an award of fees entirely if it can show that, despite having lost the case, its position on the

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[3] 5 U.S.C. 552(a)(4)(E).

[4] 5 U.S.C. 706.

[5] 42 U.S.C. 405(g).

[6] 5 U.S.C. 504.

[7] Typically, attorney's fees awards are calculated by taking the number of hours reasonably spent on the case multiplied by the hourly rate the particular lawyer could command in the relevant market. Blum v. Stenson, 465 U.S. 886 (1984); Hensley v. Eckerhart, 461 U.S. 424 (1983).

[8] 28 U.S.C. 2412(d)(2)(A)(ii).

[9] E.g., 42 U.S.C. 1988 (civil rights cases).

merits of the case was "substantially justified."[10]

Which brings us to H.R. 4558. Public Citizen takes no position on the wisdom of allowing market-rate fee shifting against the federal government in the particular patent cases covered by the bill. In principle, we are not against the notion that plaintiffs, particularly the small to medium-sized companies with less than 500 employees covered by H.R. 4558, should be made whole when they do battle with the government and win.

H.R. 4558's beneficiaries gain important two things -- in fact, the two things I have highlighted above -- that EAJA simply could not give them: market rate attorney's fees and automatic fee-shifting if they have prevailed in their suit with the federal government. However, it is not clear to us that those who are forced to litigate against federal patent "takings" are any more deserving than other litigants -- many of whom, like social security and SSI claimants living in poverty, are more in need of full recompense for their injuries sustained because of erroneous applications of federal law.

As a general matter, we don't think it is healthy or rational to deal with the question of attorney's fees on an ad hoc, piecemeal basis. The real question, which is raised obliquely by H.R. 4558, is EAJA reform, which is long overdue. Reforming EAJA along the lines we propose will obviate the need to burden Congress

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[10] 28 U.S.C. 2412(d)(1)(A). The Supreme Court has held that the government is substantially justified only where it can show that its position had a reasonable basis in law and in fact. Pierce v. Underwood, 487 U.S. 552, 563-68 (1988).

with subject-specific fee legislation. Attorney fee rates under EAJA are seriously out of line with the market and the substantial justification standard has provided little guidance to the courts, thereby multiplying litigation needlessly, while saving the government little, if any, money. The Administrative Conference of the United States has suggested numerous EAJA reforms, as Recommendation 92-5, all of which, we believe, merit serious consideration by this Committee and Congress as a package. Although we don't agree with every recommendation in its entirety, we believe that Recommendation 92-5 provides a good starting point for discussion and, if enacted tomorrow, would be a significant improvement over the current scheme. For the Committee's convenience, we have submitted as Exhibit A to this testimony a copy of the Administrative Conference's recommendation.

We have the following suggestions for EAJA reform. At the outset, we note that none of these proposals would cost the government significant amounts of money, and some would save the government fees and/or litigation costs, while at the same time more fairly compensating parties who have to bear the expense of challenging unlawful government conduct.

I. Issues Concerning the Fee Rate: Raising the fee cap, eliminating EAJA's "special factor" enhancement criterion, specifying the cost-of-living fee cap, and using current fee rates.

A. Raising the Fee Cap. The fee cap of $75 per hour plus inflation should be raised. Even assuming a full-inflation adjustment is award, the maximum fee award under EAJA may not

exceed approximately $120 per hour ($75 adjusted for inflations since the EAJA's original effective date in October 1981). This is very significantly below prevailing market rates in Washington, D.C., which are not dissimilar to rates in other major U.S. cities. We are attaching as Exhibit B a copy of the so-called Laffey matrix, which is used in federal courts in the Washington area to calculate the actual market rate for legal services in fee requests. For instance, lawyers with 11 years of experience command fees of $265 per hour. Fee rates range from $135 to $305 per hour. To show how out of date EAJA has become, paralegals and law clerks (usually law students) now are billed at the EAJA $75 per hour ceiling.

We recognize that the EAJA fee cap was intended as a compromise between the pre-EAJA world, where no fees were available in many cases against federal agencies, and market-rate fee statutes. However, the current rate is so drastically out of line with typical market rates so as to eliminate much of the incentive, and unquestionably much of the compensation, EAJA is supposed to provide for challenging unlawful agency action. As a middle ground, we suggest raising the fee cap to $175 per hour, plus increases in the cost of living from enactment of the new cap.

B. Eliminating Enhancement for "Special Factors." Although EAJA generally limits fees to $75 per hour plus inflation, it does permit increases for "special factors." This standard is remarkably vague, and the Supreme Court's interpretation of it, unfortunately, has not helped much. See Pierce v. Underwood, 487

U.S. 552, 571-74 (1987). It continues to spawn a great deal of unproductive litigation, with wildly inconsistent results, precisely because litigants are seeking ways to recover their full market-rate fees. In an effort to streamline the Act, we support the elimination of this fee enhancement factor, so long as the fee cap is increased as discussed above.

C. Choosing a Cost-of-Living Index. There has also been considerable litigation of what cost-of-living index should be used to enhance fees. A majority of courts have held that the appropriate index is the all-items Consumer Price Index for all urban consumers (known as the CPI-U), while a minority have used the CPI index for legal services, with the latter resulting in higher fee awards since inflation in legal services has outstripped inflation generally since EAJA's enactment. But regardless of which index is higher at any given time, using the legal services index makes sense since the EAJA consumer is shopping for legal services, not housing or hamburgers (the types of items that comprise the CPI-U). However, the issue of which index to use is probably less important than choosing an index. Congress should direct the courts to use a particular cost-of-living index and thereby avoid unproductive litigation.

D. Paying Current Rates. We strongly recommend an amendment to EAJA directing that courts use the date that the fees are awarded as the relevant time to assess the fee rate. Historic rates -- using the rate at the time the work was performed -- are simply insufficient to properly compensate litigants or encourage

them to bring cases. This is especially important to encourage lawyers to bring cases, where the case can only be taken on a contingent basis and it is likely that the case will take many years to complete. Moreover, to use historic rates runs counter to the purpose behind the cost-of-living adjustment.[11] We note that, in the context of the Civil Rights Attorney's Fees Awards Act,[12] the Supreme Court has held that courts may use current rates to compensate for delay.[13] Of course, the government would save some fees if historic rates were used (would they be assessed year-to-year or month-to-month?), but there is no principled reason for using them. Finally, our suggested amendment is itself a middle ground, because fees are not actually paid by the government until after the fees are awarded and ordinarily the delay in payment is many months.

II. Elimination of "Substantial Justification" Defense.

The Administrative Conference has recommended that the substantial justification standard be repealed in public benefit cases, such as social security cases. Professor Harold Krent, a consultant to the Administrative Conference on its EAJA recommendation, also makes a persuasive argument that such a repeal is in the interest of justice, would encourage settlement, thereby

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[11] See Action on Smoking and Health v. CAB, 724 F.2d 211 (D.C. Cir. 1984)(EAJA cost-of-living adjustments should be made to assure that lawyers receiving fees at different times obtain equivalent value).

[12] 42 U.S.C. 1988.

[13] Missouri v. Jenkins, 491 U.S. 274, 278-84 (1989).

reducing litigation costs, and would cost the government little, if any, money.[14] This is principally because the government's EAJA defenses are usually unsuccessful,[15] and the government wastes considerable resources litigating those losing cases. In addition, the government is obligated to pay fees to the plaintiff for the time spent proving that the government's position was not substantially justified.[16]

If the substantial justification defense is to be repealed, that repeal should apply across the board -- but at a minimum to all benefit cases, not just those filed under the Social Security Act. For instance, veterans disability cases in the Court of Veterans Appeals ("COVA"), a category indistinguishable from social security cases in all relevant respects, should also be included. Veterans cases involve disability issues similar to those in social security cases, and are usually filed by impecunious claimants. Further, there are relatively few lawyers expert in this area, because, until 1989 when the Veterans' Judicial Review Act became effective,[17] lawyers could take no more than a $10 fee to

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[14] Harold J. Krent, "Fee Shifting under the Equal Access to Justice Act," 11 Yale J. Law & Pol. 458, 487-89, 492-94, 495-500 (1993).

[15] Id. at 487-88; Annual Report of the Director of the Administrative Office of the U.S. Courts - 1992 (hereafter "Annual Report"), p. 94 (for year ending Sept. 1992, of 245 EAJA applications to Dep't of HHS, only 36 denied; government wide only 25 applications denied on substantial justification grounds).

[16] Comm'r, INS v. Jean, 496 U.S. 154 (1990).

[17] Pub. L. 100-687, 102 Stat. 4105 (1988).

represent veterans in these cases.[18] Still, the veteran may not pay a lawyer at all at the initial administrative hearing level, and the maximum court-awarded contingent fee at the COVA level is only 20% of the retroactive award (as opposed to 25% in the social security context). About 65% of the veterans proceeding in the COVA do not have lawyers.[19]

Moreover, there is good reason to go beyond the Administrative Conference's recommendation and simply repeal the substantial justification defense across the board. To put it bluntly, it is very, very difficult to prevail in a case against the federal government. Generally speaking, in a case challenging federal government action, the plaintiff has to show that the conduct contested was arbitrary and capricious or without substantial evidence or some other standard of review that gives the government agencies great latitude in conducting their business. Moreover, in cases challenging the lawfulness of a particular regulation or other policy as contrary to law, the agency is given great deference in interpreting the statute. The result is often that a challenge will not be successful unless is can be shown that the agency's policy is wholly irrational.[20]

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[18] See Walters v. Nat'l Ass'n of Radiation Survivors, 473 U.S. 305 (1985).

[19] The Ninth Annual Judicial Conference of the U.S. Court of Appeals for the Federal Circuit, 140 F.R.D. 57, 190 (1992); Linda Himmelstein, "This is One Court With a Shortage of Lawyer -- Judge Lets it Be Known: Veterans Need Legal Help, Fast," Legal Times, May 4, 1992, p. 1.

[20] Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 387, 842-45 (1984).

In such circumstances, there is no reason why winning on the merits should not be equated with a showing that the government's position on the merits is lacking in substantial justification. Indeed, two federal appeals courts have held just that.[21] Other courts have resisted this equation and hundreds of cases have been litigated on the substantial justification question, with the government losing most of the time and many hours expended by attorneys on both sides.[22] As a matter of statutory interpretation both of these positions can be defended, but as a matter of policy, the substantial justification standard is of no great value, and likely costs the government more than it saves. Because, as stated, to win against the government it is necessary to show that the government's position was clearly wrong, and often times irrational, the substantial justification defense does not serve as a safeguard to allow the government to present novel defenses without the worry of a fee award. Indeed, the statute already permits the court to deny fees when "special circumstances make an award unjust,"[23] and we think that narrow exception is sufficient.[24]

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[21] Federal Election Comm'n v. Political Contributions Data, Inc., 995 F.2d 383 (2d Cir. 1993), cert. denied, 114 S. Ct. 1064 (1994); Oregon Natural Resources Council v. Madigan, 980 F.2d 1330 (9th Cir. 1992).

[22] Krent, supra, at 499-500.

[23] 28 U.S.C. 2412(d)(1)(A).

[24] Krent, supra, at 500 (elimination of substantial justification standard not likely to cause of overdeterrence of governmental conduct).

III. Defining "Final Judgment."

Currently, EAJA contains a statute of limitations, requiring that fee applications be filed within 30 days of "final judgment."[25] While this might sound easy to apply, it has in fact been nightmarish, resulting in literally hundreds of cases litigated solely or principally on this issue. Indeed, just within the last three years, the Supreme Court has issued two decisions on this issue, the first of which caused so much confusion that it led to several hundred lower court opinions interpreting it within less than two years.[26] The second, an attempt to explain the first, came to the unprecedented conclusion that parties who had not yet even won the benefits the sought from the government were nevertheless obligated to file an EAJA fee application to be timely (and indeed could collect fees at that point).[27]

The simple answer to all this remarkably wasteful litigation is simply to repeal the statute of limitations. An examination of the case law discussed above reveals that (1) the cases in which timeliness has been argued do not involve egregious delays (or even delays at all), but rather hypertechnical arguments involving interpretations of cases like Melkonyan and Schaefer, and (2) the government has tended to lose its timeliness arguments in the overwhelming majority of the cases. Although this cannot be quantified, we strongly believe that the government has experienced

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[25] 28 U.S.C. 2412(d)(1)(B).

[26] Melkonyan v. Sullivan, 498 U.S. 1023 (1991).

[27] Shalala v. Schaefer, 113 S. Ct. 2625 (1993).

a net loss litigating EAJA timeliness issues. And, as to substance, the government simply cannot show that it needs a 30-day statute of limitations to prevent stale claims (or for any other reason).

We have stated this problem in a way that puts the burden on the government to show why the statute of limitations is needed. The reason for this is two-fold. First, if there was ever a type of law that needed no statute of limitations, an attorney fee statute is it. Lawyers will naturally want to file as early as possible, and the problem with the 30-day rule, and cases like Melkonyan, is that they are preventing lawyers from filing when it make sense, i.e., when the case is truly over and settlement has been fully explored. As Judge Richard Posner of the U.S. Court of Appeals for the Seventh Circuit has put it, in rejecting the government's argument that the 30-day period should begin to run before the time to appeal has lapsed, the attorney, "being hungry to see some cash," will have incentive enough to file for fees as soon as possible.[28] Second, there are well over 100 federal fee-shifting statutes, numerous of which provide for fees against the federal government. Only one other to our knowledge -- a tax statute patterned on the EAJA[29] -- contains a statute of limitations, and we know of no significant problem with delayed fee applications under those many other statutes.

IV. Expanding Agency Coverage.

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[28] McDonald v. Schweiker, 726 F.2d 311, 314 (7th Cir. 1983).

[29] 26 U.S.C. 7430.

As noted above, a separate EAJA provision allows parties prevailing in adversary administrative adjudications before federal agencies to recover fees.[30] Under a 1991 Supreme Court decision,[31] this has been drastically limited to cases which are technically subject to the Administrative Procedure Act's provision which sets out the procedures for agency hearings.[32] Numerous adversary agency adjudications are not subject to the APA simply because they have their own procedures contained in their own governing statutes. There is no reason to exclude fully adversary proceedings, such as the deportation cases at issue in Ardestani, on the ground that they are not technically governed by the APA. Both the majority and the dissent in Ardestani, recognized that covering deportation cases is fully consistent with the EAJA's purposes and that deportation hearings apply the same procedures as does the APA. This problem could be fixed simply by amending EAJA to state that, instead of covering cases "under [5 U.S.C.] 554," EAJA covers all adversary agency adjudications that follow the same or similar procedures contained in section 554.

V. Coverage in Article I Courts.

There has been considerable litigation over whether the EAJA covers litigation in Article I courts, such as the bankruptcy court or veterans court, or only litigation in Article III courts. Most courts have held that Congress meant what it said -- that the EAJA

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[30] 5 U.S.C. 504.

[31] Ardestani v. INS, 112 S. Ct. 515 (1991).

[32] 5 U.S.C. 554.

applies to "any court"[33] -- and therefore, generally the only problem has been the wasteful litigation that has arisen by the government's contention that these courts are not covered.[34] Moreover, Congress has amended the statute on two occasions to make clear that the Court of Federal Claims and the Court of Veterans Appeals are covered.[35] We believe that EAJA covers Article I courts. Besides the clear language of the statute, it would have been odd for Congress to have included Article III civil actions and adversary administrative proceedings, which have their origin in Article I, but to exclude Article I civil actions.

At the appellate level, only the Eleventh Circuit has held that Article I courts are not covered,[36] and if for no other reason to assist citizens who by happenstance live in that circuit, EAJA ought to be amended to make clear that Article I courts are covered.

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The Costs of EAJA. One final word about cost. When the EAJA was enacted, a CBO study accompanying the relevant committee report estimated that EAJA would cost the government about $100 million in

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[33] 28 U.S.C. 2412(a), (b), (d)(1)(A).

[34] See, e.g., Essex Electro Engineers v. U.S., 757 F.2d 247 (Fed. Cir. 1985)(Claims Court covered; since codified in 28 U.S.C. 2412(d)(2)(F)); O'Connor v. U.S. Dep't of Energy, 942 F.2d 771 (10th Cir. 1991)(bankruptcy court covered); U.S. Navy-Marine Corps Court of Military Review v. Chaney, 29 M.J. 98 (CMA 1989)(court of military appeals covered).

[35] 28 U.S.C. 2412(d)(2)(F).

[36] See, e.g., In re Davis, 897 F.2d 1136 (11th Cir. 1990)(bankruptcy).

1980 dollars in year one, and somewhat more thereafter.[37] In fact, in some years, EAJA awards have barely exceeded one million dollars government wide, and have never come anywhere close to the original estimates.[38] Moreover, Justice Department officials who attended the Administrative Conference proceedings leading up to its recommendation estimated that the proposed changes would cost about $5-$7 million annually, just a tiny fraction of the original CBO estimate. Because of the savings involved in some of our suggestions -- including the elimination of much of the wasteful litigation now taking place under EAJA -- we believe the increased

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[37] H.R. Rep. No. 1418, 96th Cong., 2d Sess. 21-24 (1980), reprinted in 1980 U.S.C.C.A.N. 4984, 5000-5004.

[38] The Administrative Office of the United States Courts, which was directed by the EAJA to make an annual report, 28 U.S.C. 2412(d)(5)(now the responsibility of the Attorney General), has published the following statistics concerning EAJA awards for the past several years:

Year Ending	Fees Awarded
6/1988	$2,027,977
6/1989	$1,884,578
6/1990	$2,218,556
6/1991	$1,233,487
9/1991	$1,174,952
9/1992	$1,261,822

Annual Report of the Director of the Administrative Office of the United States Courts -- 1992, p. 93.

Professor Krent's study reveals higher outlays, but still the CBO 1980 estimates outstrip Professor Krent's findings by about 20 fold in actual dollars, even without adjusting for inflation. Krent, supra, at 472, 483 & nn. 94-95.

costs would be negligible. In any event, given the very small budgetary outlays under EAJA to date, no one could argue that the changes brought on by our recommendations would impose significant new costs.

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We recognize that the bill pending before this Committee is not one to effect these changes. But the patent fee proposal is, in our view, symptomatic of the problems that exist with EAJA. We believe, that broad EAJA reform, rather than an ad hoc response to a perceived problem of one set of litigants, is the proper way to deal with the costs of litigating against the federal government. Our approach is more rational and addresses the concerns of all our citizens.

We have attempted to hit the most critical areas of EAJA reform, but our views about EAJA are not limited to those discussed above. We look forward to working with the committee on any efforts at EAJA reform and welcome any requests for further assistance that the committee may have. Thank you once again for this opportunity to present our views.

EXHIBIT A

Recommendation 92-5

Streamlining Attorney's Fee Litigation Under the Equal Access to Justice Act

Congress first waived the government's immunity from attorney's fee awards in the Equal Access to Justice Act (EAJA), 5 U.S.C. §504, 28 U.S.C. §2412(d), in 1980 and reenacted the Act in 1985. The EAJA authorizes certain private parties that prevail in nontort civil litigation against the United States in both courts and agencies to recover their fees and expenses. No recovery is allowed, however, if the government demonstrates that its position was substantially justified, which has been construed to require the government to show that its position had a reasonable basis in both law and fact. The Act precludes fee awards to parties that exceed a specified net worth or, in the case of businesses and organizations, number of employees. It also sets a maximum hourly rate for attorney's fees of $75 per hour. The rate can be raised if the court "determines that an increase in the cost of living or a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee"; in agency proceedings, the agency must make such a determination through rulemaking. With cost-of-living increases, attorneys can, at present, hope to recover a little over $100 per hour under the EAJA for most court litigation, though they remain limited to $75 per hour for most litigation before agencies.

Congress sought to accomplish two interconnected goals in the Act: to provide an incentive for private parties to contest government overreaching and to deter government wrongdoing. Congress feared that parties with limited resources would not be able to defend vigorously against government enforcement actions or to challenge opprobrious regulation. One-way fee shifting under the Act was intended to help rectify the imbalance in resources. Because fee awards must be paid out of the offending agency's budget, Congress hoped that EAJA litigation would also spur agencies to act more prudently, particularly when determining the rights of parties of modest means.

Congress originally estimated that the EAJA would cost the government $100 million a year. In recent years, approximately 2,000 EAJA applications have been resolved each year, of which the vast majority involve social security disability or similar individual benefits disputes. The total payout of fees in these cases has been only $5 to $7 million per year.

Reducing Litigation and Encouraging Settlement

Although the EAJA may not have been used as often as predicted, it has nevertheless generated a significant amount of contentious litigation. Relatively few EAJA applications appear to be settled, and the empirical evidence available indicates that fee litigation often results in more complicated proceedings than are merited. Ambiguous provisions in the Act—such as the substantial justification standard and the provision permitting enhancements to the fee cap—foster additional litigation and minimize the potential for settlement of fee disputes. The Administrative Conference believes that amendments to the EAJA would produce significant savings in litigation costs.

To reduce litigation over the proper amount of fees awardable under the EAJA, the Conference recommends several technical modifications to the Act. First, Congress should strike the provision allowing enhancement of fees when "a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee." The enhancement provision breeds uncertainty, costs money to litigate, and makes settlement more difficult to obtain. Second, Congress should amend 28 U.S.C. §2412(d)(2) to specify how courts should calculate cost-of-living increases. Little is gained by litigating over issues such as which price index or subcategory of an index to use in these calculations. Third, Congress should make clear that fees are to be calculated at the adjusted rate applicable on the date the judge or adjudicator issues an order granting the EAJA application. Currently, courts are split as to when the cost-of-living increase is applicable—for instance, whether it should be calculated as of the date the work is performed, or as of some later date. Choosing the date when the application is granted creates a bright-line rule that should simplify the calculation and compensate a private party to a limited extent for the delay in payment, *e.g.*, payment in 1992 for work performed in 1986. Fourth, because the Conference recommends eliminating the enhancement provision and including an offer-of-judgment provision (described below), both of which should tend to reduce the fees payable by the government, it also recommends raising the fee cap to approximate more closely the prevailing market rate for attorneys, to ensure that the level of compensation under the Act remains adequate to serve its purposes.

In addition to these relatively technical modifications to the Act, the Administrative Conference recommends that Congress enact an offer-of-judgment provision to help encourage settlements of fee disputes arising under the EAJA. Upon receiving a private party's fee application, the government could make an offer of judgment as to the fee award. If the private party rejects that offer and ultimately recovers no more than the offer, it could not recover any fees or expenses incurred for services rendered after the offer was rejected. The offer-of-judgment device should encourage settlement, thereby

saving both parties the expense of litigating fee disputes; while the government party gains leverage by extending an offer of judgment, the private party benefits from the opportunity to obtain prompt payment of fees.

This offer of judgment recommendation and the four technical recommendations that precede it involve careful balancing of factors that may either increase or reduce the incentives for attorneys to accept EAJA cases. The Conference presents them as a single package, rather than separate proposals, and emphasizes the interrelationship among the recommendations.

The Conference also recommends that Congress act to resolve problems involving implementation of the EAJA's requirement that parties seeking fees file applications within 30 days after final judgment (or final disposition in agency proceedings). Thirty days does not always provide adequate time for prevailing parties to prepare the necessary materials, and the jurisdictional nature of the requirement forecloses the option of a time extension. Extending the filing deadline to 60 days would reduce the pressure on fee applicants without undue prejudice to the government. More importantly, the Supreme Court's recent decisions in *Melkonyan v. Sullivan*, 111 S. Ct. 2157 (1991), and *Sullivan v. Finkelstein*, 110 S. Ct. 2658 (1990), have spawned significant litigation about the timeliness of EAJA applications when the federal courts remand cases to agencies. Currently, some district court remands to agencies are considered final judgments, thus triggering the 30-day filing limit in the EAJA, even though claimants do not yet know whether they have "prevailed" in the underlying action. The uncertainty created by these cases could be avoided by making clear in the statute that the filing deadline is not triggered in a proceeding on remand until the party has prevailed in the remanded proceeding. Alternatively, Congress could resolve these problems by deleting the 30-day requirement. Most other attorney's fee statutes do not include any such deadline, and attorneys waiting to be paid for their services will have no incentive to delay filing.

Congress should also encourage private parties litigating against the United States to inform the court or administrative adjudicator before judgment if they intend to apply for EAJA fees should they prevail. This would permit such decisionmakers, in appropriate cases, to make a determination as to the substantial justification of the government's position at the same time they resolve the merits. That simultaneous finding may obviate the need for more extensive briefs at a later time.

Streamlining Fee Disputes in Individual Benefit Cases

Individual benefit claims brought directly under 42 U.S.C. §405(g) or under a provision cross-referencing 42 U.S.C. §405(g), which include social

security disability, SSI, Medicare and similar claims, raise some unique issues deserving special consideration. Currently, the substantial justification issue is litigated in a high percentage of all EAJA disputes arising out of such benefit cases; from July 1989 to June 1990, the government prevailed in less than 15% of these disputes. The average EAJA award in such cases is less than $3,500. In light of these facts, the Conference concludes that the substantial justification standard should be eliminated for benefit cases involving individual claimants (but not for class actions). Although automatic fee shifting in these cases would increase the government's exposure to EAJA awards, that increase would be counterbalanced to some extent by the elimination of considerable governmental expense in litigating the substantial justification issue.

More importantly, elimination of the substantial justification standard should enable benefit claimants to find representation. Currently, parties seeking to press small disability claims and most SSI claims may have difficulty retaining counsel either through hourly rates or through a contingency fee arrangement; eliminating the substantial justification standard should help ensure the availability of counsel in these cases by making certain that a reasonable fee will be available for any successful claim. In addition, in cases--primarily disability cases--in which claimants can obtain counsel through contingency fee arrangements (restricted, in social security cases, to a reasonable fee not to exceed 25% of back benefits, 42 U.S.C. §406(b)), their counsel currently have little incentive to apply for fees under the EAJA. If counsel have a contingency fee arrangement and obtain an EAJA fee award, they must return the lesser award to the claimant. Pub. L. No. 96-481, §206, as amended by Pub.L. No. 99-80, §3, 99 Stat. 186 (August 5, 1985). Not surprisingly, many successful benefits claimants do not apply for EAJA fees (fewer than 40 percent did so from July 1989 to June 1990), even though private parties' success rate in EAJA litigation exceeds 80 percent.

Extending the EAJA's Coverage

Finally, the Conference recommends that Congress consider extending the Act's coverage, on a category-by-category basis, to particular agency and court proceedings that have the same characteristics as those adversary proceedings now covered by the Act. The Act covers only "adversarial adjudications" in agencies, which are defined as "adjudications under section 554 of [title 5]." The Supreme Court in *Ardestani v. INS*, 112 S. Ct. 515 (1991), construed that provision to exclude agency proceedings--such as deportation cases--which have virtually the identical attributes as proceedings under §554 but are not technically covered by that provision. Similarly, it is unclear whether the

EAJA covers all litigation against the United States in Article I courts, even though such proceedings are often directly analogous to those covered by the Act in Article III courts. Congress has dealt explicitly with some of these courts; for example, the EAJA was amended in 1985 to include the United States Claims Court, and a separate statute, with somewhat different standards than the EAJA, provides for fee awards in Tax Court proceedings 26 U.S.C. §7431. But other Article I bodies remain to be considered. The Court of Veterans Appeals, for example, recently decided that it does not have authority to award attorney's fees under the Act. *Jones v. Derwinski*, No. 90-58 (March 13, 1992).

RECOMMENDATION

1. Congress should amend the Equal Access to Justice Act, 5 U.S.C. §504, 28 U.S.C. §2412(d), as follows:

A. To reduce litigation over the dollar value of fee awards, (1) the provision in the Act allowing enhancement of fees when "a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee" should be stricken, (2) the Act should specify the precise method to be used in calculating future cost-of-living adjustments to the fee cap, (3) the Act should state that the rate to be used is the one that is applicable when the judge's (or administrative adjudicator's) order awarding EAJA fees is issued, and (4) the $75 per hour fee cap should be raised to approximate more closely the prevailing market rate for attorneys.

B. To encourage settlements, the Act should include an offer-of-judgment procedure: after an EAJA application is filed, the government may make an offer of judgment on the EAJA claim; if the private party rejects the government's offer and is ultimately awarded no more than that offer, that party forfeits the right to seek fees or expenses for the EAJA litigation from the time the offer of judgment is rejected.

C. To eliminate litigation on the question of when prevailing parties must file for fees, either the 30-day filing deadline in 5 U.S.C. §504 and 28 U.S.C. §2412(d) should be extended to 60 days, to run from the date

of final disposition of the case,[1] or the filing deadline should be eliminated.

D. To promote judicial economy, the Act should encourage private parties litigating against the United States to notify the court or administrative adjudicator prior to judgment if they intend to file an EAJA application should they prevail, so as to enable the decisionmaker, in appropriate cases, to determine whether the government's position was substantially justified within the meaning of the Act at the same time that judgment is entered against the United States.

2. Congress should modify the provisions of 28 U.S.C. §2412(d) as they apply to individual benefit claims either brought directly under 42 U.S.C. §405(g) or under a provision cross-referencing 42 U.S.C. §405(g) in the federal courts. For those cases, the Act should provide for fee awards to prevailing claimants in individual actions without reference to whether the position of the United States was substantially justified.

3. Congress should consider whether to extend the Act's coverage, on a category-by-category basis, to:

A. Agency proceedings that, although not technically adjudications "under section 554 [of Title 5]," are required by statute to employ procedures equivalent to those of such formal adversary proceedings.

B. Proceedings before Article I courts that have the same attributes as covered proceedings in Article III courts and in agencies.

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[1] "Final disposition" occurs when a party has prevailed in a proceeding and the disposition of the proceeding is final and unappealable; in proceedings involving a remand from a court to an agency, final disposition does not occur until the remanded proceeding is concluded and the resulting administrative order is final and unappealable.

EXHIBIT B

APPENDIX A
U.S. ATTORNEY'S OFFICE'S MATRIX

Years (Rate for June 1—May 31, based on prior year's CPI)

Experience	80–81	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89	89–90	90–91	91–92	92–93	93–94
20 + years	165	175	185	195	205	210	220	230	245	260	275	285	300	305
11–19 years	140	150	160	170	180	185	190	200	210	225	240	250	265	265
8–10 years	120	125	130	135	140	145	150	155	165	175	185	195	210	215
4–7 years	95	100	105	110	115	120	125	130	140	150	160	165	170	175
1–3 years	70	75	80	85	90	95	100	105	110	115	120	125	130	135
Paralegals/law clerks	30	35	35	40	40	45	50	55	60	65	70	75	75	75

Methodology note: Laffey, decided in 1982, set fees for work done in 1981–82. The fees in this matrix are calculated by adding Consumer Price Index (Washington, D.C. Metropolitan Area) increase to the applicable Laffey rate for the prior year, then rounding (up, if within $3 of the next multiple of $5). The result is then adjusted to ensure that the relationship between the highest rate and the lower rates remains reasonably constant.

Mr. BRYANT. The Chair will recognize himself for 5 minutes for questions.

Mr. Oswald, I am a little puzzled. Are we too late to help you?

Mr. OSWALD. No, sir. No, sir. The final damage award has not been—the damage trial has not been concluded nor heard.

Mr. BRYANT. What kind of timetable are we talking about here?

Mr. OSWALD. We believe that will be done sometime in 1995 and that the judge will probably issue the opinion sometime in 1996. If it follows form, the trial that took place in 1989 lasted 2 weeks and then the judge took until 1991 to issue the opinion.

Mr. BRYANT. The trial was when?

Mr. OSWALD. The trial was in 1989.

Mr. BRYANT. Took him until 1991 to issue an opinion?

Mr. OSWALD. Yes, sir.

Mr. BRYANT. That is what should be against the law right there. That is more common than it ought to be.

Mr. GEKAS. Would the gentleman yield?

Mr. BRYANT. Yes.

Mr. GEKAS. What opinion? If the liability issue was resolved in your favor, what opinion had to be—you mean an order to move on to the second phase?

Mr. OSWALD. The liability trial was to determine whether our patent was valid. That was really the issue, and that is the trial that was held in 1989, to——

Mr. GEKAS. That was a judge finding; not a jury?

Mr. OSWALD. Yes, sir.

Mr. FROST. Court of Claims.

Mr. GEKAS. I get it now. Sorry.

Mr. OSWALD. So it did take that long and that was the issue that was decided. And then that had to be decided for us in order to go to the next stage for damages.

Mr. GEKAS. I understand. I thought a jury was involved. I had that in mind.

Mr. OSWALD. No. No, sir.

Mr. BRYANT. So that is not before us, but it is a continuing concern of mine that that happens frequently. I wonder how a judge expects to be able to make a decision 18 months after he heard the evidence better than he could the next day.

Mr. OSWALD. Well, it will end up being about 11 years since we filed the suit if we in fact get it decided in 1996. That is——

Mr. BRYANT. That is a shame. If I understand correctly, you would be eligible to recover fees under the Equal Access to Justice Act, which is what this gentleman was just talking about but for the fact that your net worth exceeds the $7 million cutoff for eligibility. Is that correct?

Mr. FROST. Mr. Chairman, I believe that, and there is an attorney here who can speak to this, but I believe that the Government has taken the position in the litigation that they are not entitled to prevail under the Equal Access to Justice Act because it is based on a condemnation theory rather than a tort theory. It is a rather convoluted position the Government took. But I believe that's the Government's position and I would ask if the attorney could come to the table to elaborate on this.

Mr. BRYANT. Sure.

Mr. FROST. The Government in the litigation itself has taken the position that the Equal Access to Justice Act under any circumstance does not permit attorneys' fees in this particular case.

She will introduce herself, but there is the net worth question you raised, also.

Mr. BRYANT. Would you introduce yourself?

STATEMENT OF MAUREEN GEVLIN, ATTORNEY, STANDARD MANUFACTURING CO.

Ms. GEVLIN. Maureen Gevlin, attorney for Standard Manufacturing.

Actually, Congressman Frost is quite—almost exact in stating what has happened. The applicability of the Equal Access to Justice Act in our case has not yet come before the court. In a similar case, which was decided in 1992, the question of the applicability to a similar situation, a government taking of a patent, was argued before the Court of Claims. The Government took the position that the act did not apply and the Court of Claims agreed. And this is apart from the question of net worth.

Mr. BRYANT. So simply amending the Equal Access to Justice Act might not do the job here?

Ms. GEVLIN. Under current interpretations, would not do the job here.

Mr. BRYANT. For you or people similarly situated.

Ms. GEVLIN. Exactly.

Mr. FROST. And, in fact, my legislation would seek to amend an underlying statute dealing with patent and copyright cases rather than amending the Equal Access to Justice Act.

Ms. GEVLIN. Exactly.

Mr. BRYANT. According to the Department of Justice, passage of this bill would work against the public interest by requiring the Government to pay all attorneys' fees and litigation costs even in cases where a private litigant had needlessly prolonged a case by making exaggerated claims for damages. This is what they say.

If we decide that attorneys' fees are appropriate in cases such as this one and we pass the bill, can you visualize any language or do you think it is appropriate to consider adopting safeguards to prevent the outcome the Justice Department is concerned about; i.e., unnecessarily prolonging cases?

Ms. GEVLIN. The bill, as it is drafted, would provide for a determination by the court that the attorneys' fees and expert witnesses costs were reasonable. So that would, in itself, as I see it, give the Department the opportunity to advance any arguments that it had that the fees that were being sought in a particular case were not justified.

Mr. BRYANT. Interesting that the party that managed to make this last 11 years would be worried about this particular problem.

Mr. Wolfman, do you agree the only way that a patent holder can recover against government for the unauthorized use of a patent is through a suit brought under section 1498 of title 28?

Mr. WOLFMAN. I am not an expert in that area. I believe that is correct.

If it is going, in essence, to the question that you first asked; that the Government does tend to argue that some cases sound in the

nature of tort and, therefore, are not EAJA cases. I think there is a very, very strong argument, however, this is a condemnation case which is covered by EAJA.

But this series of questions does get to the problem of all this satellite litigation that could be—for instance, the amendment, any amendments, EAJA could make very clear that all these type of takings would be covered by EAJA. I am once again not suggesting at all that these folks are not entitled to their just compensation.

Mr. BRYANT. Under the circumstance, why would we want to allow attorneys' fees to be recovered in all such cases rather than the limited categories that are addressed in the bill?

Mr. WOLFMAN. I am sorry. I am not sure I understood the question.

Mr. BRYANT. Well, the bill is limited to private inventors and small companies. So the question is why would we want to——

Mr. WOLFMAN. Well, that is a difficult policy choice, the same type of policy choice made in EAJA. As was referenced before, EAJA limits recoveries to certain sized companies and companies with net worths of now only under $7 million. In my view that is a serious problem. It was originally $5 million, went to $7 million in 1985, and has not changed since. At the very least, it should be indexed. But that is a problem.

The question whether you want to have some cutoff for huge concerns with enormous net worths is a legitimate concern, because the Government obviously has other things it needs to do with its money. But in my view, the $7 million net worth is out of control. There are, with all respect, there are many nonprofits, for instance, that own a building. They really do not have anything much to spare but they might have a net worth over $7 million. The networth limitation is totally out of date.

On the other hand, the limitations in this bill are, I should say at least more reasonable. A 500-person company is fairly substantial—most people work for companies with less than 500 employees. It is more liberal than the EAJA.

I did not mention it in my testimony because it was a less critical point to us. But it is of concern.

Mr. BRYANT. Mr. Gekas.

Mr. GEKAS. Yes, I made a quick judgment here that we could remedy all of these problems by amending EAJA; that is, if we could consider that to be an umbrella type of statute to cover all these types of claims, that we could safely amend EAJA to cover this situation and other similar situations rather than to venture into—when we want to help.

I am convinced we want to help this firm. Rather than venture into individual—other types of statutes, could EAJA not serve as an umbrella category of statutes to cover this situation and other similar situations dealing with the attorneys' fees and expert witnesses and all?

Mr. WOLFMAN. Is that a question for me, Representative Gekas?

Mr. GEKAS. Yes.

Mr. WOLFMAN. Yes, it could, and particularly if it took in the problem referred to here, which strikes me as a rather bizarre argument that something that obviously looks like a condemnation

proceeding, the Government contends is not. And that is our position, yes.

Mr. GEKAS. That would seem to me a clean way to approach.

Mr. FROST. Well, of course, you would have to deal with the net worth provisions in EAJA.

Mr. GEKAS. Yes.

Mr. FROST. And you would have to clearly address that Court of Claims decision that the attorney cited earlier in which the Court of Claims took the position that EAJA did not apply to this type of case. So you have——

Mr. GEKAS. We would make it apply.

Mr. FROST. I understand. But if you are dealing with this larger statute and trying to fit this kind of situation under it, then you have to look at the particularities of this situation.

Mr. GEKAS. No question.

Mr. FROST. And you have to look at the broader questions of the standard set in EAJA in terms of the type of government's defense whether it had a justifiable defense and the net worth requirements. You would have to have a significant rewrite of EAJA if you were going to fit this type of case under it.

Mr. GEKAS. Well, there is no question about that.

Mr. FROST. It would be a very substantial rewrite of that statute, I would think.

Mr. GEKAS. But it could form the platform for a review of all of these matters covering all claims and not distinguishing, or distinguishing, but properly, between tort and eminent domain and all those other themes.

But back to this for a moment. When we were talking about inflation, even under the current statute, covering attorneys' fees with inflation figures applicable, are we talking about inflation in attorneys' fees or CPI inflation? And that is an important distinction. Cannot a case be made that even if you are considering inflation only, that you should be doing it in the realm of attorneys' fees rather than general inflation of the cost of chewing gum?

Mr. WOLFMAN. Again, Representative Gekas, that is our position. We have a portion of our testimony directed to that, and I think you are exactly correct and let me explain why.

If that had been what was going on in the courts since 1991, we would not be so out of line with market rates. Our view, as we like to put it, is maybe a little too glib, you are shopping for legal services, not hamburgers. It could be the other way around. The day may come where legal services inflate at roughly the same rate or less than the CPI, but the point is that it has not. And the statute right now simply speaks to the increases in the cost of living. I think Congress needs to address the question of which index should we look at, and the Department of Labor does produce on a bimonthly basis an index for legal services and that ought to be the one looked to, in my view.

Mr. GEKAS. Then I have another bizarre concept. What if somewhere along the line we, even under existing laws, would demonstrate that not only did the Government not take a justifiable position that it was not substantially justified but if a finding was made they were indeed not justified, they would be subject to what would be akin to punitive damages. That is, if they undertook the

defense that they were justified and lost it, that they would be subject to what would be in private, in the private world punitive damages to give them, the U.S. attorneys there, the choice of pursuing the defense or not pursuing it depending on what they would predict, might be the outcome.

I don't know how else we can deal with the defense of being substantially justified on the part of the Government. Anybody have any thoughts on that?

Ms. GEVLIN. If I may, Congressman. The substantially justified defense is a particular problem in the question of patent suits because there are a number of cases that have been decided over the past 20 years that basically say that no matter what the Government did to get the patent, no matter what arguments it has advanced in court, its position is justified precisely because the statute, section 1498, gives the Government the right to take the patent.

So given the body of case law that exists, there is more than a substantial question as to whether the Government could ever be unjustified in litigating a patent decision, because the basic statute that allows it to take a patent owner's patent and allows the patent owner to sue for compensation says that the Government is justified in what it has done.

Mr. GEKAS. I am getting a headache.

Mr. WOLFMAN. Representative Gekas, if I might. I think that that is essentially correct under EAJA. EAJA gives away the liability position, basically, and I believe it was in the form of an amendment to EAJA.

In condemnation cases, the question of whether there is substantial justification, you look solely at the question of how much the Government was willing to pay for its taking vis-a-vis how much they ultimately obtained. But the question of liability, in essence, is off the table.

Mr. GEKAS. Well, at the very least, I am satisfied that we ought to pursue in one way or another the whole series of issues that have been presented by the panel. I thank the Chair.

Mr. BRYANT. Well, Ms. Gevlin or Mr. Wolfman, or Congressman Frost, if you know, I want to get this on the record, I think I know the answer, but it is correct, is it not, there is no way for a party to be compensated for the wrong that was done you except by bringing a lawsuit? Isn't that correct?

Ms. GEVLIN. That is correct.

Mr. BRYANT. No other means of doing it. Therefore, attorneys' fees are going to be a question in every case.

Ms. GEVLIN. That is true.

Mr. BRYANT. Very well.

Finally, just to make the record complete, as you might have guessed, the Justice Department is opposed to this bill, sent us a letter October 4 with reasoning, which I do not find particularly persuasive, but if there is no objection, we will make it part of the record today.

[The letter follows:]

U. S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

October 4, 1994

Honorable John Bryant
Chairman
Subcommittee on Administrative Law
and Governmental Relations
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This provides the views of the Department of Justice on H.R. 4558, a bill "to enhance fairness in compensating owners of patents used by the United States." The Department of Justice recommends against enactment of this legislation.

The remedy for unauthorized manufacture or use of a patented invention by or for the government is a suit in the Court of Federal Claims under 28 U.S.C. § 1498(a) for reasonable and entire compensation. The reasonable and entire compensation standard of recovery is identical to the just compensation standard embodied in the Fifth Amendment of the Constitution which is commonly applied in eminent domain cases. See, Leesona Corp. v. United States, 599 F.2d 958, 967 (Ct. Cl.), cert. denied, 444 U.S. 991 (1979). Just compensation under the Fifth Amendment does not include costs or attorneys' fees. This is true for all types of eminent domain takings for which just compensation is required under the Fifth Amendment.

This bill would amend section 1498(a) by mandating that reasonable and entire compensation include "the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action" if the owner is an independent inventor, a nonprofit organization or an entity with less than 500 employees. This would single out actions under section 1498(a) for a more expansive award of costs and attorneys' fees than is available to claimants in other actions against the government. There are other remedies available that would not require such preferential treatment for suits under section 1498(a).

Under the Equal Access To Justice Act (EAJA), 28 U.S.C. § 2412, Congress has already provided for recovery of costs against the government. Section 2412(a) permits an award of costs against the government when the claimant prevails, although

such an award is not required. Also, section 2412(d) permits the award of attorneys' fees to certain individuals, nonprofit organizations and entities with less than 500 employees and having a net worth of less than $7,000,000 when the government's litigation position is not substantially justified. This resulted from substantial debate in the Congress about the proper balance between the need to permit recovery of costs and attorneys' fees against the government in some cases and the desire to avoid encouraging claimants to advance untenable theories. We are unaware of any basis for adopting a different rule for patent claims against the government from the EAJA rule on recovery of costs and attorneys' fees in other claims against the government.

H.R. 4558 would expand the government's liability for attorneys' fees beyond that provided under the EAJA in two respects. First, under EAJA, attorneys' fees are only awarded when the government is unable to establish that its litigating position was substantially justified. Yet, under the bill, if the patentee established liability, regardless of how close that question might have been, it would be entitled to recover its expert witness and attorneys' fees. Even in private patent infringement actions, which rest on a tort theory, rather than on an eminent domain theory, attorneys' fees are only awarded against a party in an "exceptional case." 35 U.S.C. § 285.

Second, Section 2412(d) sets limits on the net worth of individuals and entities who may receive an award of attorneys' fees when the government's litigating position is not substantially justified. While the present bill mirrors some of the requirements of Section 2412(d)(2)(B) in terms of the parties eligible for an award of attorneys' fees, it contains no limitation on the net worth of the individual inventor or the entity. Again, there is no apparent basis for permitting a broader measure of recovery of attorneys' fees for claims under section 1498(a) than provided generally against the government under the EAJA.

Moreover, permitting mandatory recovery of a patent owner's costs and attorneys' fees can prolong cases that typically take years to complete, and impede settlement by encouraging claimants to pursue insupportable theories of recovery. At times, one of the most vigorously litigated issues in patent claims against the government is the amount of compensation that may be recovered. In three recent cases, the Court of Federal Claims, the Claims Court and their predecessor, the Court of Claims, noted that the claimants had pursued far more in compensation than could reasonably be supported. In Leesona, the Court of Claims stated that "the lengthy record" in that case "was dominated by plaintiff's and the trial judge's pursuit of a large award, attempting to make good the injury to business on a tort theory, wholly inadmissible in eminent domain." 599 F.2d at 979. In ITT

Corp. v. United States, 17 Cl. Ct. 199 (1989), the court concluded its lengthy and thorough assessment of compensation by noting that the award was low "relative to plaintiff's expenditure of time and effort to achieve it." 17 Cl. Ct. at 243. Finally, in De Graffenried v. United States, 29 Fed. Cl. 384, 386 (1993), the court noted that the recovery by the patent owner, excluding delay compensation, was about $89,000, whereas the patent owner had sought an award of $5-16 million, excluding delay compensation. In all three cases, the claimants prolonged the cases and added to the expense to the government in refusing to settle after liability was found and pursuing untenable theories of recovery. Under the H.R. 4558, the government would be liable for the patentee's costs and attorneys' fees even though they resulted from unwarranted contentions advanced by the claimants. Moreover, the fact that a patentee is assured of recovery of its attorneys' fees so long as it establishes liability, regardless of whether the government has acted reasonably in litigating the action, removes any incentive for a patentee to settle a lawsuit on a reasonable basis after liability has been established.

This bill also runs counter to Fed. R. Civ. P. 68 concerning offers of judgment. Under Rule 68, a party who fails to recover a judgment more favorable than that offered by a defendant prior to trial must pay the defendant's costs in defending the action after the offer was made. Yet, by mandating the award of costs to patentees in actions under section 1498(a) regardless of the reasonableness of their position, the bill departs from the goal of Rule 68 of encouraging claimants to realistically evaluate their cases.

In sum, we do not believe there is need for the amendment of section 1498(a) to provide for the mandatory recovery of costs and attorneys' fees. These are not components of just compensation under the Fifth Amendment, and their recovery against the government is already provided in the Equal Access to Justice Act. Any perceived benefit in enacting H.R. 4558 would not outweigh the added time and expense that can be anticipated. Therefore, the Department of Justice recommends against enactment of this legislation.

We appreciate your consideration of our views. Please do not hesitate to contact me if you would like additional information.

The Office of Management and Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's programs.

Sincerely,

Sheila Anthony

Sheila F. Anthony
Assistant Attorney General

cc: Honorable Martin Frost

Mr. OSWALD. Mr. Chairman.

Mr. BRYANT. Yes, sir.

Mr. OSWALD. Would it be appropriate, I don't know your rules and regulations and I certainly do not want to get into an argumentative deal with the submission of the Justice Department, but if I could comment on that first part that you mentioned there. That is particularly galling to me, if I may.

There is an implication that we asked for very high compensation and unduly prolonged the suit. I find that very much the position of an adversary.

Mr. BRYANT. You are talking about the comment I made earlier?

Mr. OSWALD. Where you read from the, I believe you were reading from the Justice Department.

Mr. BRYANT. Oh, I see their implication.

Mr. OSWALD. Yes, sir, their implication, where you are reading from their submittal. I spent many dollars coming up here on six or seven different occasions to try to settle this suit with those people. They initially offered me $100,000. They saved $100 million. We are asking for a portion of that $100 million. I am not asking for money that they have to go dig up. I am asking for a portion of what they did not have to spend that they saved.

They also allowed the competitor to take our patent and use it under a provision of defense procurement called value engineering. And in that particular case, they awarded the competing company $7.5 million in incentive awards for taking, basically taking our patent and using it and proposing it.

It is very galling to me to have that position, and I would also like to comment that the Justice Department has litigated this thing every step of the way. Every inch and every step of the way.

Thank you. That gets under my skin a little bit.

Mr. BRYANT. Thereby prolonging the matter and making it that much more expensive for people coming in and asking for attorneys' fees.

Mr. OSWALD. Yes, sir that is exactly right.

Mr. BRYANT. I think you make a very persuasive case and both the ranking member and I, based upon his comments here, feel we should take action on this at the beginning of the next Congress and I promise you that we will do that.

Mr. OSWALD. Thank you.

Mr. BRYANT. If there are no further questions and there are no further questioners to ask further questions, we will bring the hearing to a close.

[Whereupon, at 11 a.m., the subcommittee adjourned.]